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ACTION SSO-00

INFO LOG-00 AID-00 ANHR-00 EAP-00 EB-00 E-00 TEDE-00
SS-00 TEST-00 SAS-00 /000W
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FM AMEMBASSY HANOI
TO SECSTATE WASHDC PRIORITY 4764
DEPTTREAS WASHDC
INFO USDOC WASHDC
NSC WASHDC
AMEMBASSY PHNOM PENH
AMCONSUL HO CHI MINH CITY

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SIPDIS

STATE FOR E, EB, EB/IFD/ODF, EB/IFD/OMA AND EAP/BCLTV
STATE PASS TO USAID/ANE AFERRERA AND DMCLUSKEY
TREASURY FOR OASIA
PHNOM PENH FOR AID: LCHILES
USDOC FOR 4431/MAC/IEP/OKSA/HPPHO

SENSITIVE

E.O. 12958: N/A

TAGS: [EAID](#) [ECON](#) [EFIN](#) [PREL](#) [VM](#) [FINREF](#) [SOE](#)

SUBJECT: VIETNAM: PROGRESS ON REFORM UNDER WORLD BANK AND IMF POVERTY REDUCTION LOANS

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[1](#)1. (SBU) SUMMARY: VIETNAM IS GENERALLY MEETING ITS ECONOMIC REFORM OBLIGATIONS UNDER ITS WORLD BANK AND IMF POVERTY REDUCTION LOANS ACCORDING TO HANOI-BASED DONOR REPRESENTATIVES. VIETNAM'S MACRO-ECONOMIC PERFORMANCE IS CURRENTLY ON TARGET ALTHOUGH AN EARLIER FAILURE TO AGREE ON CREDIT GROWTH TARGETS HAS DELAYED THE SCHEDULED RELEASE OF THE SECOND TRANCHE OF THE IMF LOAN. HOWEVER, THE IMF REPRESENTATIVE IN HANOI EXPECTS THE IMF BOARD WILL APPROVE THE RELEASE WHEN IT CONSIDERS THE ISSUE AS SCHEDULED ON NOVEMBER 24. PROGRESS ON TRADE REFORM IS AT PRESENT AHEAD OF SCHEDULE ALTHOUGH BANKING REFORM IS LAGGING SLIGHTLY. THE AREA OF GREATEST DIFFICULTY HAS BEEN IN STATE-OWNED ENTERPRISE REFORM. HOWEVER THE PACE OF WORK ON SOE REFORM HAS INCREASED SINCE THE COMMUNIST PARTY GAVE EXPLICIT POLITICAL APPROVAL IN LATE AUGUST TO RESTRUCTURE THE SOE SECTOR. THERE IS STILL A NEED FOR GREATER GVN AND INTERNATIONAL COMMUNITY FOCUS AND EMPHASIS ON DOMESTIC PRIVATE SECTOR DEVELOPMENT AS A NECESSARY AND APPROPRIATE ACCOMPANIMENT TO ECONOMIC, TRADE, AND FINANCIAL REFORMS. PRIVATE SECTOR DEVELOPMENT SHOULD BE A CENTRAL THEME FOR THE USG AT NEXT MONTH'S CONSULTATIVE GROUP MEETING. END SUMMARY.

[1](#)2. (SBU) AS NEXT MONTH'S ANNUAL CONSULTATIVE GROUP (CG) MEETING DRAWS NEAR, HANOI-BASED DONOR REPRESENTATIVES, INCLUDING IMF AND WORLD BANK OFFICIALS, BRIEFED ECONOFF ON THE STATUS OF REFORM EFFORTS AND AGREE THAT VIETNAM IS GENERALLY "ON TRACK" FOR MEETING ITS REFORM OBLIGATIONS UNDER THE CONDITIONS OF ITS POVERTY REDUCTIONS LOANS IN ALL MAJOR AREAS INCLUDING MACRO-ECONOMIC PERFORMANCE GOALS,
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TRADE, BANKING AND STATE OWNED ENTERPRISE (SOE) REFORM.

[1](#)3. (SBU) ACCORDING TO THE IMF RESIDENT REPRESENTATIVE SUSAN ADAMS, PROGRESS IS BEST ON MACRO-ECONOMIC TARGETS. IN FACT, VIETNAM IS OVER-PERFORMING ON THE FISCAL SIDE DUE TO HIGHER-THAN-EXPECTED TAX REVENUES. THESE HAVE ALLOWED THE GVN TO MEET ITS BUDGETARY TARGETS DESPITE LOWER THAN ANTICIPATED ECONOMIC GROWTH. GVN FOOT-DRAGGING ON SOME REQUIRED PRIOR ACTIONS IN THE MONETARY SIDE, IN PARTICULAR CREDIT GROWTH TARGETS, TEMPORARILY DELAYED THE RELEASE OF THE \$52.5 MILLION SECOND TRANCHE OF VIETNAM'S \$374 MILLION POVERTY REDUCTION GROWTH FACILITY FROM THE IMF. BUT THE GVN HAS NOW COMPLETED ALL NECESSARY STEPS, AND THE IMF BOARD IS SCHEDULED TO CONSIDER RELEASE OF THE TRANCHE AT ITS NOVEMBER 24 MEETING. ACCORDING TO ADAMS, THERE ARE "NO REAL PROBLEMS NOW."

[1](#)4. (SBU) ADAMS AGREES WITH WORLD BANK CHIEF ECONOMIST KAZI MATIN THAT THE GVN IS AHEAD OF THE GAME ON TRADE, WHERE THE

REFORM PACKAGE LARGELY RESTS ON IMPLEMENTATION OF THE U.S.-VIETNAM BILATERAL TRADE (BTA) AGREEMENT. MATIN POINTED OUT THAT THE GVN IS MAKING LEGAL CHANGES NEEDED TO MEET OBLIGATIONS THAT TAKE EFFECT IMMEDIATELY ENTRY-INTO-FORCE OF THE BTA, EXPECTED SHORTLY AFTER VIETNAM'S NATIONAL ASSEMBLY APPROVES THE AGREEMENT IN ITS CURRENT SESSION (END NOVEMBER OR SO). MATIN ACKNOWLEDGED THAT IT IS NOT CLEAR WHETHER ALL THOSE CHANGES WILL BE EFFECTIVE UPON ENTRY INTO FORCE OF THE BTA OR WHETHER VIETNAM WILL BE IN COMPLIANCE WITH EACH OF THE OBLIGATIONS. BUT HE NOTES THE GVN HAS MADE OBVIOUS AND REAL EFFORTS TO COME INTO COMPLIANCE IN ADVANCE OF BTA ENTRY INTO FORCE IN A NUMBER OF AREAS AND THINKS THIS MOMENTUM

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BODES WELL FOR THE FUTURE. (COMMENT: WHILE THE GVN MAY NOT BE FULLY COMPLIANT WITH EVERY OBLIGATION UNDER THE BTA BEFORE ENTRY INTO FORCE, POST AGREES THAT THE GVN IS MAKING A REAL EFFORT TO BRING THE NATION INTO COMPLETE COMPLIANCE WITH ALL ITS OBLIGATIONS. END COMMENT.)

15. (SBU) ADAMS AND MATIN ALSO AGREE THAT IN THE REFORM PROGRAM'S EARLY MONTHS (THE IMF PROGRAM WAS APPROVED IN APRIL AND THE BANK PROGRAM IN JUNE), VIETNAM FELL SLIGHTLY BEHIND ON BANKING REFORM. THE DIFFICULTY HAD BEEN IN GETTING THE GVN TO APPROVE CONTRACTS FOR OUTSIDE INDEPENDENT BANKING AUDITS INTENDED TO PROVIDE INFORMATION NEEDED TO PRODUCE DETAILED RESTRUCTURING PLANS FOR THE FOUR STATE COMMERCIAL BANKS. THESE WERE COMPLETED EARLIER THIS FALL SOMEWHAT BEHIND SCHEDULE. THE NEXT BIG CHALLENGE WILL BE TO MEET YEAR-END DEADLINES ON LOAN CLASSIFICATION, E.G. ON WHICH LOANS ARE NON-PERFORMING. THE GVN HAS ASSURED THE BANK AND THE FUND THAT IT WILL MEET THESE TARGETS.

16. (SBU) BUT THE GREATEST DIFFICULTIES FOR THE GVN IN MEETING ITS AGREED UPON TARGETS HAVE BEEN IN SOE REFORM. IN THE FIRST SIX MONTHS OF THE POVERTY REDUCTION PROGRAMS, THE GVN FELL SUBSTANTIALLY BEHIND. AS A RESULT, FEWER FIRMS WERE "EQUITIZED" (A TERM PREFERRED BY THE GVN TO "PRIVATIZED") IN 2001 THAN IN 2000 OR 1999. THE REASON, MATIN SAYS, WAS THAT THE COMMUNIST PARTY LEADERSHIP DID NOT EXPLICITLY ENDORSE THE GOVERNMENT'S PLAN TO RESTRUCTURE SOE'S AT THE NINTH PARTY CONGRESS HELD APRIL 2001. HOWEVER, THE PARTY DID FINALLY GIVE THE NEEDED ENDORSEMENT AT THE PARTY PLENUM CALLED FOR THAT SPECIFIC PURPOSE IN AUGUST. SINCE THAT TIME, SUBSTANTIAL PROGRESS IN MOVING FORWARD ON REFORM HAS BEEN MADE. MATIN PREDICTS THAT THE GVN WILL BE BACK ON TARGET IN THIS AREA BY THE END OF THE YEAR.

17. (SBU) COMMENT: EVEN IF THE GVN STARTS MEETING ITS SOE REFORM TARGETS ON TIME, THE FACT REMAINS THAT VIETNAM'S SOE REFORM PACKAGE IS MUCH LESS AMBITIOUS THAN MANY INTERNATIONAL OBSERVERS FELT WAS OPTIMAL. FUND AND BANK OFFICIALS GENERALLY AGREE WITH THIS VIEW. BUT WHEN IT BECAME CLEAR THAT LARGE-SCALE SOE PRIVATIZATION WAS NOT POSSIBLE GIVEN THE GOVERNMENT'S IDEOLOGY, THESE INSTITUTIONS MADE THE STRATEGIC DECISION TO LOCK IN THE COMMITMENTS TO SOE REFORM THAT THE GVN WAS WILLING TO MAKE BASED ON THE FACT THAT SOE REFORMS WOULD BE REINFORCED AND, IN THEIR VIEW, MADE MORE EFFECTIVE BY THE REFORMS AGREED TO IN TRADE, BANKING, AND PUBLIC SECTOR FINANCE.

18. (SBU) COMMENT CON'T: EQUALLY NECESSARY TO SUCCESSFUL REFORM AND POVERTY REDUCTION IS FOCUS ON THE CONTINUED DEVELOPMENT OF THE DOMESTIC PRIVATE SECTOR. A FLOURISHING DOMESTIC PRIVATE SECTOR IS NEEDED TO: CREATE GREATER

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DOMESTIC COMPETITION FOR SOES; GENERATE JOBS IN GENERAL AND ALSO TO ABSORB THOSE MADE REDUNDANT BY DOWNSIZING OF THE SOE WORKFORCE; AND BECOME THE ENGINE FOR THE FUTURE ECONOMIC GROWTH TO LIFT VIETNAM'S POOR OUT OF POVERTY. WHILE THE TERMS OF VIETNAM'S POVERTY REDUCTION LOANS DO NOT CONTAIN SPECIFIC OBLIGATIONS TO DEVELOP THE PRIVATE SECTOR, THE IMPERATIVE TO FOSTER PRIVATE SECTOR GROWTH WAS THE UNDERLYING LOGIC OF THE PACKAGE'S DESIGN.

19. (SBU) COMMENT CON'T: IT IS CLEAR THAT IF VIETNAM IS TO MEET ITS OWN AMBITIOUS GOALS OF ELIMINATING POVERTY AND JOINING THE RANKS OF THE WORLD'S INDUSTRIALIZED COUNTRIES BY 2020, THE GVN MUST DO MORE THAN JUST MEET ITS OBLIGATIONS UNDER THE WORLD BANK, IMF AND BTA AGREEMENTS. IT MUST PUT ALSO PUT INCREASED EFFORT INTO ACTIVELY FOSTERING THE PRIVATE SECTOR DEVELOPMENT. THE GVN EXPENDS CONSIDERABLE RESOURCES, BOTH ITS OWN AND THOSE OF BILATERAL AND MULTILATERAL DONORS, DESIGNING LONG-TERM STRATEGIES AND MEASURES TO REACH GOALS IN KEY ECONOMIC AREAS SUCH AS SOE REFORM. GIVEN THE INHERENT IMPORTANCE OF PRIVATE SECTOR DEVELOPMENT TO VIETNAM'S FUTURE, IT WOULD BE APPROPRIATE FOR VIETNAM'S LEADERS (AND THOSE WHO ADVISE THEM) TO DIRECT THE SAME LEVEL OF ENERGY AT THE PRIVATE SECTOR. THE USG SHOULD ENCOURAGE VIETNAM TO VIEW SOE REFORM AND PRIVATE SECTOR DEVELOPMENT AS TWO SIDES OF A SINGLE COIN, BOTH VITAL TO ITS ECONOMIC FUTURE. WE CAN BEGIN BY MAKING THIS A CENTRAL THEME IN OUR STATEMENT FOR NEXT MONTH'S CG MEETING IN HANOI.

END COMMENT.
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